

# Public Agenda Item #9a

Review, Discussion and Consideration of the Private Infrastructure Program:  
Private Infrastructure Market Update and Program Overview

February 23, 2016

Pablo de la Sierra Perez, Assistant Director Private Real Assets

Jay Yoder, Partner & Head of Infrastructure, Altius Associates

Bryan Sweeney, Principal, Altius Associates

# ERS Private Infrastructure Program Overview



## *Agenda - Key Topics*

- Portfolio Update as of December 31, 2015
- Market Update
- Goals and Objectives for FY2017
- Long Term Goals and Objectives

# ERS Private Infrastructure Program Overview

## *Portfolio Update as of December 31, 2015*



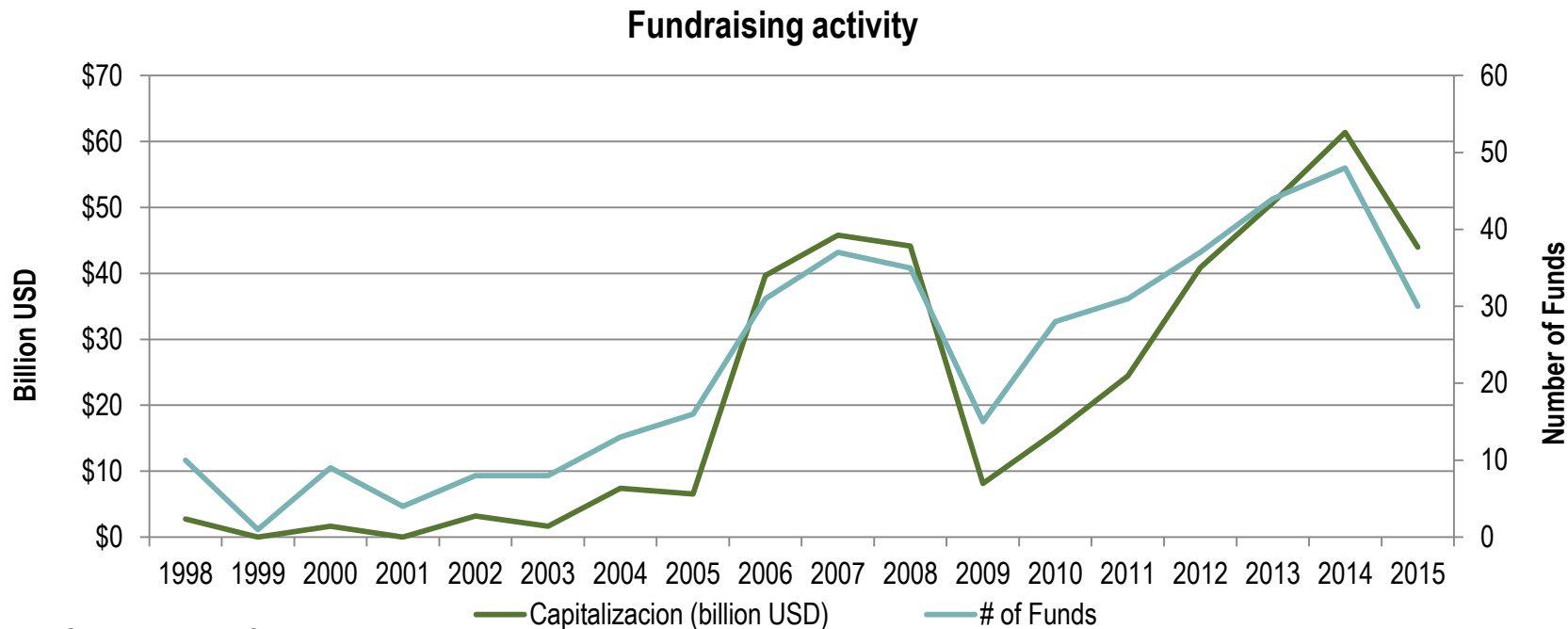
- Inception through December 31, 2015: 3 Funds, 6 co-investments, \$528 million committed
  - \$60 million additional investments expected in FY2016
  - Net Asset Value (“NAV”) of \$296 million or 1.2% of system assets
  - 1.16x TVPI<sup>1</sup>, 0.06x DPI<sup>1</sup>, 7.18% Internal Rate of Return (IRR)
- FYE2016: Expect 2-3 new commitments

---

1. TVPI, or Total Value to Paid in Capital, is equal to (NAV + Distributions) / Paid in Capital;  
DPI, or Distributed to Paid in Capital, is equal to Distributions / Paid in Capital

# ERS Private Infrastructure Program Overview

## Market Update



Source: Private iQ

Agenda item 9a - Meeting book dated February 23, 2016

# ERS Private Infrastructure Program Overview

## *Market Update*



- Energy-related infrastructure remains largest subsector
- Expanding private infrastructure universe:
  - Debt
  - Midstream
  - Structuring
- Platform investing
- Greenfield (new construction)
- Direct investments / co-investments

# ERS Private Infrastructure Program Overview

## *Market Update - Outlook*



- Strong need for global infrastructure investment
- Evolution of traditional PE-style fund-investment model
- Standardization and market information

# ERS Private Infrastructure Program Overview

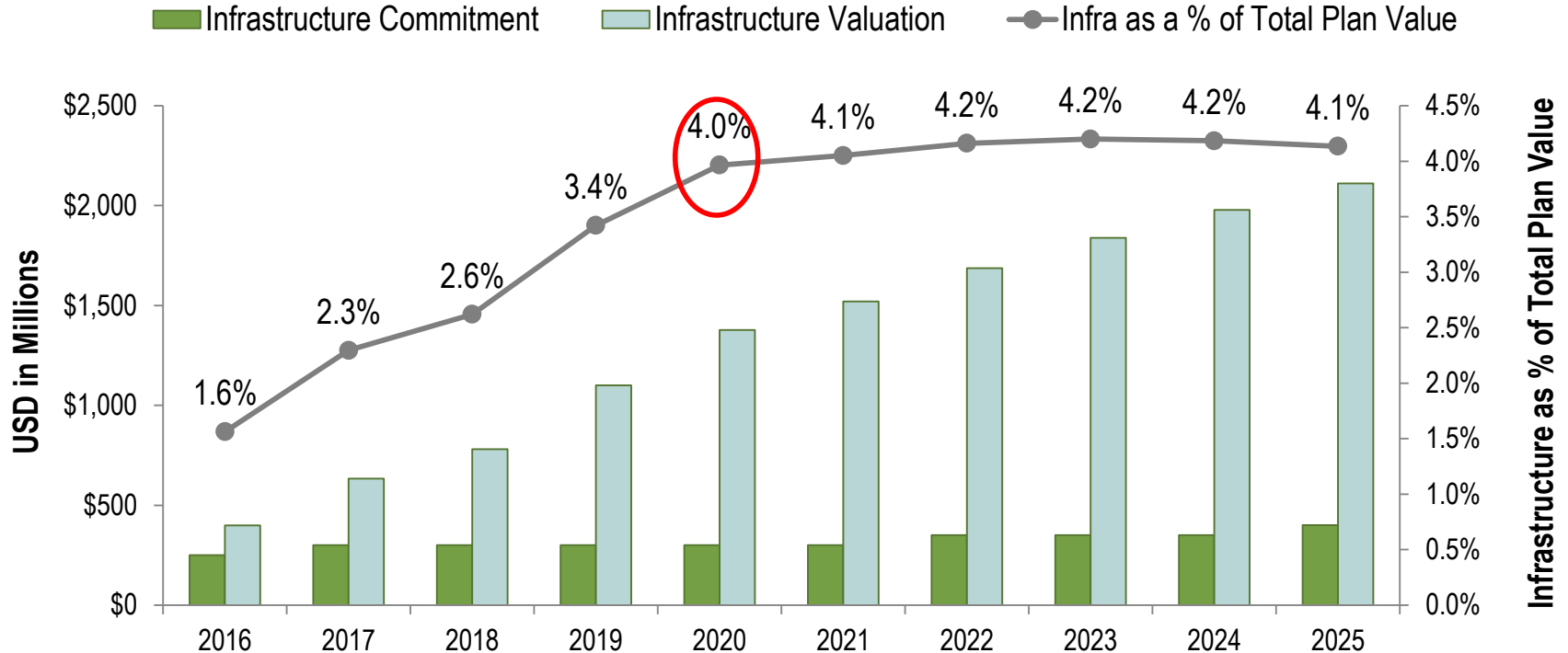
## *Goals and Objectives for FY2017*



- Continue pursuing direct investments and co-investments
- Seek structures and partnerships to pool and manage capital with other investors
- Seek to enhance operational flexibility
- Continue establishing key relationships
- Formulate short/midterm investment focus areas
- Execute Tactical Plan
- Add one analyst – Real Asset focus

# ERS Private Infrastructure Program Overview

## Long Term Goals and Objectives





Questions?

FEBRUARY 2016

ALTIUS ASSOCIATES LTD  
**ERS PRIVATE INFRASTRUCTURE**  
**PROGRAM UPDATE**

**ALTIUS**  

---

**A S S O C I A T E S<sup>®</sup>**

# PRESENTING TODAY

- Jay A. Yoder, CFA  
*Partner, Head of Real Assets*
- Bryan Sweeney  
*Principal, Real Assets*

# DISCUSSION OVERVIEW

- I. Update on ERS Private Infrastructure Portfolio
- II. Looking Back: Market Facts and Figures
- III. Looking Forward

# I. INFRASTRUCTURE PROGRAM UPDATE

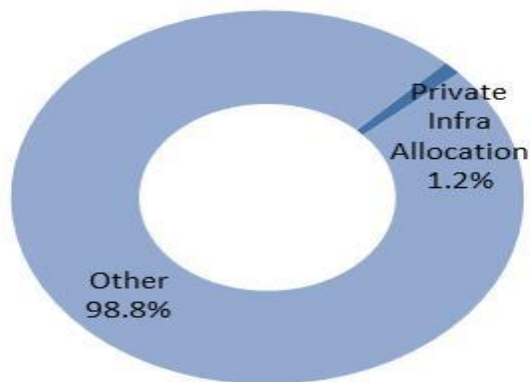
A decorative horizontal line with a wavy, undulating pattern in a dark red color, spanning the width of the slide below the main title.

# PRIVATE INFRASTRUCTURE PORTFOLIO SNAPSHOT

ERS is in the early stages of building its private infrastructure portfolio

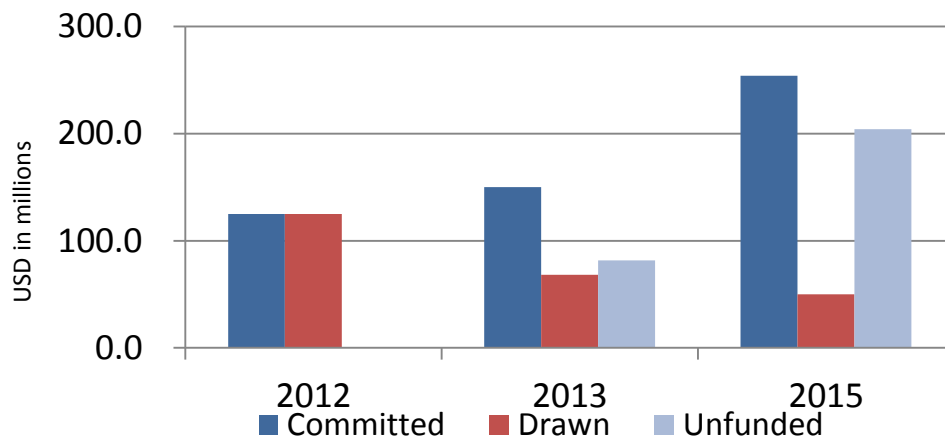
## Private Infrastructure Allocation

- \$296.1 million private infrastructure NAV<sup>1</sup>
- \$24.9 billion plan assets<sup>1</sup>



## Portfolio Summary by Vintage Year

- \$529 million committed<sup>1</sup>
- 9 investments



<sup>1</sup> As of December 31, 2015

# PRIVATE INFRASTRUCTURE PORTFOLIO SNAPSHOT

## Fund Investments

Investment	Investment Type	Vintage Year	ERS Commitment \$ in millions	Description
Actis Energy 3 & Co-investment Vehicle	Fund	2013	\$125.0	Renewable energy and electricity transmission in emerging markets
ISQ Global Infrastructure Fund	Fund	2015	\$75.0	Value-add infrastructure fund targeting investments globally in energy, utilities, and transportation assets
Stonepeak Fund II	Fund	2015	\$68.0	Middle-market investments in power, water, midstream energy, renewables, transportation, and communications sectors

## Co-investments

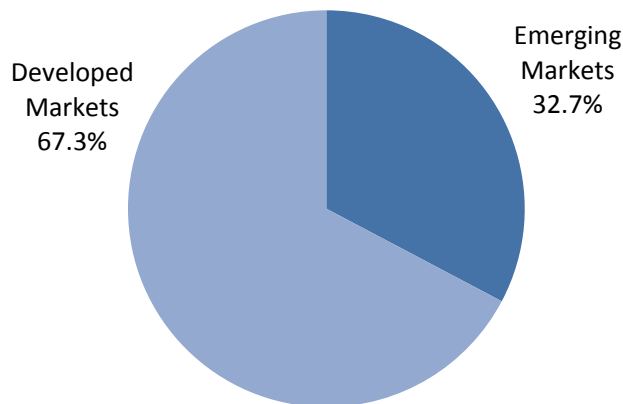
Investment	Investment Type	Vintage Year	ERS Commitment \$ in millions	Description
Co-Investment #1	Co-investment	2012	\$261	Natural gas fired combined cycle power generation facility
Co-Investment #2	Co-investment	2012		Natural gas fired combined cycle power generation facility
Co-Investment #3	Co-investment	2013		Natural gas fired combined cycle power generation facility
Co-Investment #4	Co-investment	2015		Infrastructure development vehicle funding, owning, and operating power projects in the Americas
Co-Investment #5	Co-investment	2015		Hydropower development and operating platform in North America
Co-Investment #6	Co-investment	2015		Owner and operator of wireless communication infrastructure

# PORTFOLIO SNAPSHOT – GEOGRAPHIC & SEGMENT EXPOSURE

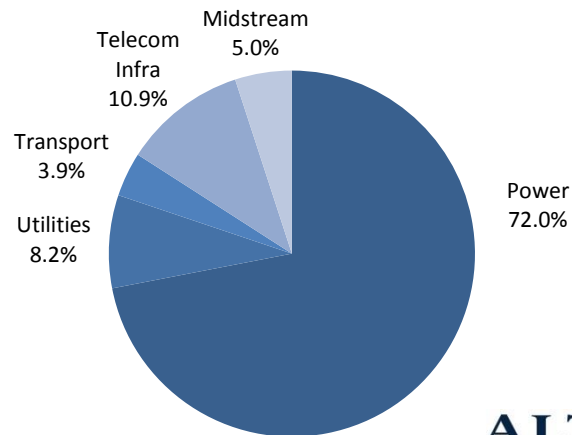
## ERS' infrastructure portfolio is in the early stages of diversification

- ERS' private infrastructure portfolio includes commitments to three fund partnerships and seven co-investments across five manager relationships
- The program will eventually provide exposure to most major segments of the private infrastructure industry

Geographic Exposure by Committed Capital



Segment Exposure by Committed Capital



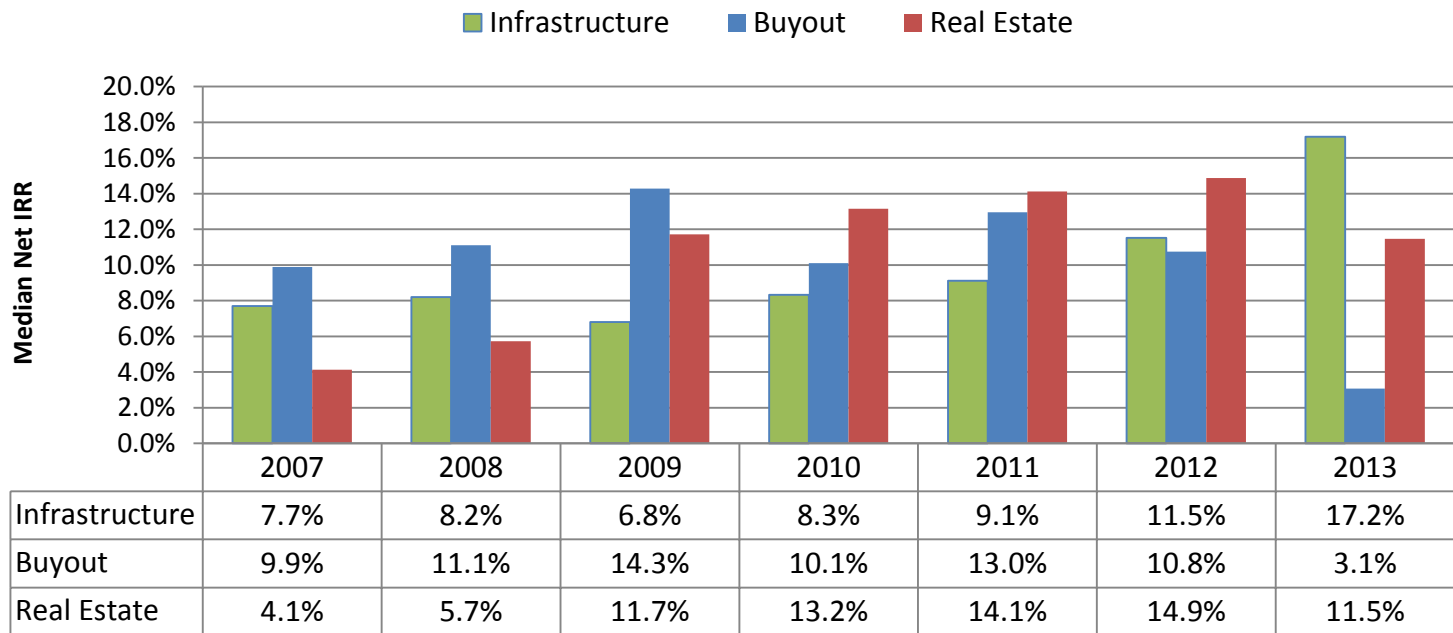


## II. LOOKING BACK: MARKET FACTS AND FIGURES

A decorative horizontal line with a wavy, undulating pattern in a dark red color, spanning the width of the slide.

# INFRASTRUCTURE PERFORMANCE

## Infrastructure Market Performance by Vintage Year



Source: Pitchbook, U.S. Bureau of Labor Statistics

# NEED FOR CAPITAL

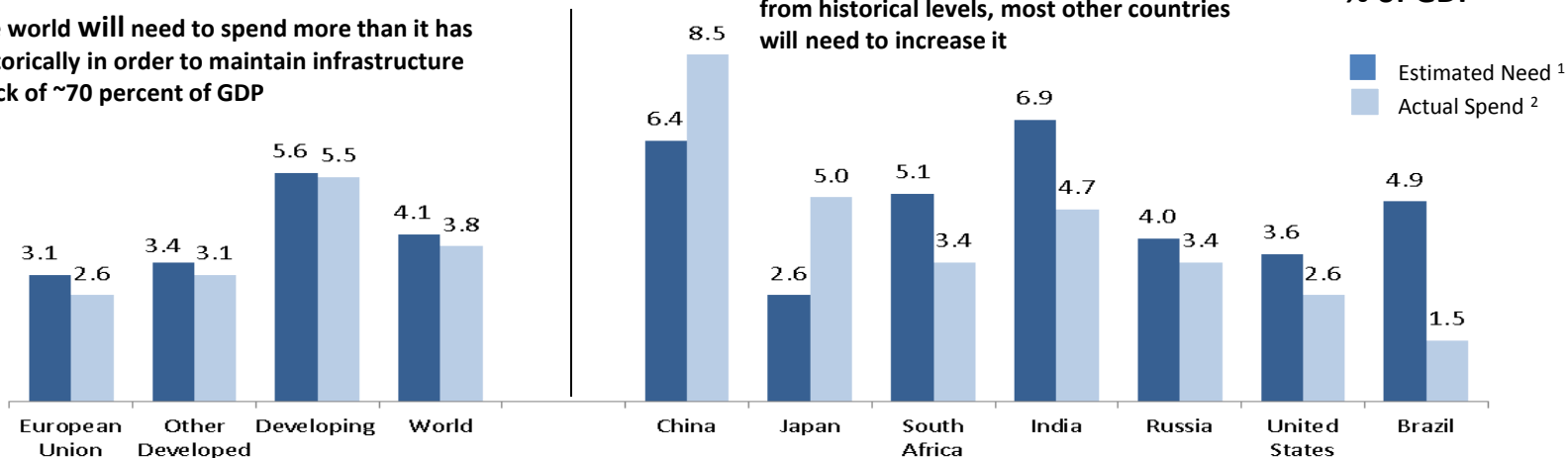
## Infrastructure Needs

- The OECD projects that approximately \$53 trillion of worldwide infrastructure investment is needed by 2030
- Global consulting firm McKinsey estimates this figure to be even higher at \$57 trillion. Assuming national governments allocate 3% of GDP to infrastructure spending, there is still a projected \$500 billion funding gap

The world **will** need to spend more than it has historically in order to maintain infrastructure stock of ~70 percent of GDP

While the rule of thumb suggests China and Japan can reduce infrastructure investments from historical levels, most other countries will need to increase it

**Infrastructure spending  
% of GDP**



1) Estimated need based on projected growth, 2013-30

2) Weighted average annual expenditure over years of available data, 1992-2011

SOURCE: ITF; GWI; HIS Global Insight; Perpetual inventory method, OECD, 1998; McKinsey Global Institute analysis

### III. LOOKING FORWARD



**ALTIUS**  
ASSOCIATES<sup>®</sup>

# MARKET OUTLOOK FOR INFRASTRUCTURE

Market Outlook – Near/Medium Term	Challenges
<ul style="list-style-type: none"><li>➤ Investors will continue to expand their allocations to infrastructure</li></ul>	<ul style="list-style-type: none"><li>➤ Limited track records of many managers</li><li>➤ Competitive access to successful managers</li></ul>
<ul style="list-style-type: none"><li>➤ Stress and distress in the energy sector is likely to continue in 2016, creating an attractive opportunity for buyers</li></ul>	<ul style="list-style-type: none"><li>➤ Unclear how long the downturn will last</li><li>➤ Proper diligence and understanding of assets is critical. Focus on downside protection</li></ul>
<ul style="list-style-type: none"><li>➤ Private infrastructure opportunities in the U.S. and emerging markets will continue to develop and grow</li></ul>	<ul style="list-style-type: none"><li>➤ Geopolitical risks in emerging markets</li><li>➤ Regulatory risks everywhere</li></ul>
<ul style="list-style-type: none"><li>➤ Direct and co-investments will become increasingly important for larger investors</li></ul>	<ul style="list-style-type: none"><li>➤ Difficult to execute on co-investments and direct deals with small staff. Ample resources required</li></ul>
<ul style="list-style-type: none"><li>➤ Deal flow is expected to remain strong</li></ul>	<ul style="list-style-type: none"><li>➤ Higher valuations of, and lower expected returns from, many core infrastructure assets</li></ul>

# RECOMMENDED APPROACH / ACTIONS FOR FY 2017

- Invest with, or alongside, top managers possessing operational expertise and a local presence
- Move towards diversification targets by adding core and value-added exposure in developed markets (ex-U.S.)
- Look to add to U.S. midstream energy exposure
- Proceed with caution in emerging markets
- Maintain realistic return objectives
  - Core infrastructure: 8-10% targeted net returns with a current yield component
  - Value-Add: 11-14% targeted net returns with a current yield component
  - Opportunistic: >14% targeted net returns

# DISCLAIMER

This document is issued and distributed by Altius Associates Limited, which is authorized and regulated by the Financial Conduct Authority in the UK and registered with the Securities and Exchange Commission in the USA. Altius Associates (Singapore) Pte Ltd is regulated by the Monetary Authority of Singapore.

This presentation has been prepared solely for Employees Retirement System of Texas, and it may not be reproduced, transferred to any other person or used for any other purpose without the written consent of Altius Associates. Altius Associates advises only clients who are, or agree to be treated as, Professional Clients.